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Agenda Item 5a

December 13, 2011

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Results of the Actuarial Valuations for Public Agencies

II. PROGRAM: Retirement

III. RECOMMENDATION: Information

IV. ANALYSIS:

CalPERS actuaries completed the June 30, 2010 Public Agency actuarial valuations shortly before the end of October 2011. This is earlier than last year but about the same time as our usual end of October target. The end of mandatory furloughs has allowed us to return to completing the valuations in time for the Employer Forum. These valuations set the employer contribution rates for fiscal year 2012-2013.

The 2010 valuations reflect the impact of the second year of the three year "phase-in" of the -24% investment loss from the 2008-2009 fiscal year that was approved by the Board in June 2009. Consequently, most plans will be experiencing an increase in employer rate in 2011-2012. However, the investment return for fiscal year 2009-2010 was approximately 13%, which is higher than our assumed return of 7.75% and also higher than the return we assumed when we made projections in last year's valuations. Therefore, although the rate for most plans is higher than last year's rate, it is, in most cases, lower than was projected last year.

What follows are the highlights of the changes in employer rates between fiscal years 2011-2012 and 2012-2013.

- 22% of the plans (449 plans) experienced a decrease
- 77% of the plans (1,570 plans) experienced an increase
- 1% of the plans (24 plans) experienced no change
- 26 plans have a zero rate

The distribution of the changes in employer rates is shown in the table below.

Distribution of Changes in Employer Rates

Change in Employer Rate as a Percentage of Payroll	Number of Plans	Percent of All Plans*
Decrease more than 3%	62	3%
Decrease between 1% and 3%	61	3%
Decrease 1% to Increase 1%	1529	75%
Increase between 1% and 3%	231	11%
Increase more than 3%	160	8%
Total	2,043	100%

Impacting the rates were past investment losses and losses due to early retirements, offset by gains due to layoffs, salary experience and a higher than expected investment return for 2009-2010. Plans that implemented new lower benefit tiers have begun to see some decrease in overall rates, but that will become a more significant factor in future years.

The following tables show the distribution of the 2011-2012 and the 2012-2013 contribution rates for miscellaneous and safety plans.

2011-2012 Rates

	Miscellaneous Plans			Safety Plans	
	Number of Plans	Percent of Plans*		Number of Plans	Percent of Plans*
0%	23	2%		1	0%
0-10%	267	19%		2	0%
10-20%	885	62%		54	9%
20-30%	226	16%		253	41%
30-40%	16	1%		236	38%
40+%	3	0%		72	12%
	1,420	100%		618	100%

* Percentages may not add up to 100% due to rounding

2012-2013 Rates

	Miscellaneous Plans			Safety Plans	
	Number of Plans	**Percent of Plans***		**Number of Plans**	**Percent of Plans***
0%	25	2%		1	0%
0-10%	260	18%		2	0%
10-20%	865	61%		53	9%
20-30%	246	17%		270	44%
30-40%	29	2%		218	35%
40+%	2	0%		72	12%
	1,427	100%		616	100%

* Percentages may not add up to 100% due to rounding

In addition to the information in the body of this agenda item, we are also providing a breakdown of employer contribution rates for fiscal year 2012-2013 by benefit formula. See Attachment 1 for this additional information.

Estimate of 2013-2014 Employer Contribution Rates

As in prior years, the actuarial valuation reports include an estimate of the employer contribution rates for the next fiscal year, in this case 2013-2014. At the time of preparing the June 30, 2010 valuations, the actual return for 2010-2011 was not known. Therefore, the estimated rates were calculated based on an estimated 20% investment return for fiscal year 2010-2011.

Note that the actual investment return for 2010-2011 was 21.7%. As a result, the actual 2013-2014 rates should be slightly lower than the estimates provided in these 2010 valuations. We expect the impact of the 21.7% return to produce 2013-2014 rates that will be about 0.5% of payroll, less than originally estimated.

Keep in mind however that the estimated 2013-2014 employer rates do not reflect any potential changes to the discount rate used in the actuarial valuations. The Actuarial Office expects to come back to the Board in March 2012 with a recommendation for the discount rate assumption to use in future actuarial valuations as a result of the economic assumption study currently under way on future price and wage inflation.

The following tables show the distribution of the estimated 2013-2014 contribution rates for miscellaneous and safety plans.

Estimated 2013-2014 Rates

	Miscellaneous Plans			Safety Plans	
	Number of Plans	**Percent Of Plans***		**Number of Plans**	**Percent Of Plans***
0%	21	1%		0	0%
0-10%	248	17%		3	0%
10-20%	875	61%		52	8%
20-30%	251	18%		260	42%
30-40%	30	2%		222	36%
40+%	2	0%		79	13%
	1,427	100%		616	100%

* Percentages may not add up to 100% due to rounding

As always, member contributions (whether paid by the employer or the employee) are in addition to the above rates unless the plan is superfunded.

Below is a table showing the average employer contribution rates for miscellaneous and safety plans for fiscal years 2011-2012, 2012-2013 and 2013-2014.

Average Employer Contribution Rate

Fiscal Year	Public Agency Miscellaneous Plans	Public Agency Safety Plans
2011-2012	14.6%	31.1%
2012-2013	14.9%	31.2%
2013-2014	15.1%*	31.6%*

* The average projected rates for fiscal year 2013-2014 were based on the estimated 20% return used for the valuations. The actual investment return was 21.7% in 2010-2011. As a result, the actual 2013-2014 rates should be lower by about 0.5% of payroll.

In addition to the information in the body of this agenda item, we are also providing a breakdown of the average employer contribution rates for fiscal year 2012-2013 by benefit formula. See Attachment 2 for this additional information.

Funded Status

As a result of the 13% return in 2009-2010, the funded status of Public Agency plans has improved slightly.

We monitor the funded status of Public Agency plans using the market value of assets. The funded ratio is equal to the market value of assets divided by the actuarial accrued liability, expressed as a percentage.

The table below shows the average funded ratios on a market value of assets basis for all miscellaneous and safety plans.

Funded Ratios on a Market Value Basis

Average Funded Ratio	Miscellaneous Plans	Safety Plans	All Plans
As of June 30, 2008	90.7%	88.0%	89.6%
As of June 30, 2009	61.5%	60.3%	61.0%
As of June 30, 2010	66.3%	64.9%	65.8%

In addition to the information in the body of this agenda item, we are also providing a breakdown of the average funded status as of June 30, 2010 by benefit formula. See Attachment 2 for this additional information.

As a result of the approximately 21.7% investment return for fiscal year 2010-2011, the average funded ratio on June 30, 2011 is estimated to increase by about 7% to 8% for both the miscellaneous and the safety plans. As noted above, the Actuarial Office expects to come back to the Board in March 2012 with a recommendation for the discount rate assumption to use in future actuarial valuations. If the discount rate is lowered below the current 7.75% assumption, it would cause an increase in liabilities and as a result, a decrease in funded status. Further information will be provided at the March meeting.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial Office.

VI. RESULTS/COSTS:

See above.

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NANCY CAMPBELL
Supervising Pension Actuary
Actuarial Office

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ALAN MILLIGAN
Chief Actuary

Attachments